

Message Text

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SUBJECT: IEA/SLT: ENERGY PRODUCTION CONSORTIUM

FOR BOSWORTH

FOLLOWING IS TEXT OF DRAFT PAPER ON THE CREATION OF AN
ENERGY PRODUCTION CONSORTIUM

THE IEA HAS ADOPTED A THREE-TIERED APPROACH TO THE
DEVELOPMENT OF NEW ALTERNATIVE SOURCES OF ENERGY:

1. AN AGREEMENT IN PRINCIPLE HAS BEEN REACHED TO ESTABLISH
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A MINIMUM PRICE BELOW WHICH NON-IEA IMPORTED OIL WILL NOT
BE SOLD IN IEA COUNTRIES. THE MINIMUM IMPORT PRICE IS
INTENDED TO PROTECT INVESTMENT IN THE BULK OF CONVENTIONAL
FOSSIL FUEL SOURCES.

2. MEMBER COUNTRIES HAVE AGREED TO ESTABLISH SPECIFIC NATIONAL MEASURES TO ENCOURAGE AND PROTECT INVESTMENT IN HIGHER COST ALTERNATIVE SOURCES, INCLUDING BOTH CONVENTIONAL FUELS AND NEW PROCESSES. THESE MEASURES MIGHT INCLUDE DEFICIENCY PAYMENTS, GOVERNMENT PURCHASE AGREEMENTS, INVESTMENT INSURANCE SCHEMES, ETC.

3. MEMBER COUNTRIES HAVE AGREED TO ENGAGE IN JOINT ENERGY RESEARCH AND DEVELOPMENT PROJECTS UNDER GUIDELINES BEING DEVELOPED BY THE SUB-GROUP ON ENERGY RESEARCH AND DEVELOPMENT OF THE STANDING GROUP ON LONG-TERM COOPERATION.

IN CONJUNCTION WITH THE SECOND TIER -- ALTERNATIVE SOURCES WHERE THE TECHNOLOGY IS PROVEN BUT HAS NOT REACHED THE PRODUCTION STATE, OR IN THOSE CASES WHERE PRODUCTION HAS NOT TAKEN PLACE BECAUSE COSTS APPEARED TO EXCEED THE PRICE OF FUELS FROM EXISTING SOURCES -- THE UNITED STATES BELIEVES THAT ADDITIONAL MEASURES, IN ADDITION TO NATIONAL MEASURES TO PROTECT INVESTMENT, ARE NEEDED TO STIMULATE PRODUCTION.

THUS, LAST FEBRUARY, WE PROPOSED THAT A "SYNTHETIC FUELS CONSORTIUM" BE ESTABLISHED WITHIN THE IEA WITH THE SPECIFIC OBJECTIVE OF PROMOTING AND FACILITATING THE PARTICIPATION OF IEA MEMBER COUNTRIES IN EACH OTHER'S HIGH-COST, HIGH-TECHNOLOGY FUEL PRODUCTION PROCESSES. SUBSEQUENTLY, IT HAS BEEN SUGGESTED THAT THE CONSORTIUM BE RE-NAMED THE "ENERGY PRODUCTION CONSORTIUM" TO REFLECT THE FACT THAT CONVENTIONAL FUELS SUBJECT TO HIGH-COST RECOVERY OR PROCESSING WERE ALSO INCLUDED IN THE CONSORTIUM CONCEPT.

AN ENERGY PRODUCTION CONSORTIUM IS NEEDED FOR THREE REASONS: (1) TO POOL SCARCE INDUSTRIAL SKILLS, ADVANCED TECHNOLOGY, AND CAPITAL IN ORDER TO ACCELERATE FUEL PRODUCTION, (2) TO PROVIDE A MECHANISM WHICH WILL ENABLE ALL IEA MEMBER COUNTRIES WILLING AND ABLE TO DO SO TO PARTICIPATE IN LIMITED OFFICIAL USE

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PARTICIPATE IN CONSORTIUM VENTURES, AND (3) TO COORDINATE NATIONAL PROGRAMS.

AS A FIRST STEP LEADING TO THE ESTABLISHMENT OF THE CONSORTIUM, WE PROPOSE THAT AN AD HOC WORKING GROUP OF THE SLT BE CONVENED AT AN EARLY DATE TO DO THE FOLLOWING:

1. IDENTIFY THE TYPE AND NATURE OF ENERGY PRODUCTION VENTURES WHOSE DEVELOPMENT COULD BE STIMULATED THROUGH THE PROPOSED CONSORTIUM.

2. DEFINE, IN COOPERATION WITH THE SUB-GROUP ON ENERGY

RESEARCH AND DEVELOPMENT, THE RELATIONSHIP THAT SHOULD PROPERLY EXIST BETWEEN THE CONSORTIUM AND THE SUB-GROUP.

3. EXAMINE POSSIBLE METHODS FOR UNDERTAKING JOINT VENTURES, BEARING IN MIND THE WORK THAT HAS BEEN DONE IN THE SUB-GROUP ON ENERGY RESEARCH AND DEVELOPMENT TO PREPARE GENERAL GUIDELINES FOR THE CONDUCT OF R&D PROJECTS.

4. UNDERTAKE A PRELIMINARY EXAMINATION OF THE FEASIBILITY AND DESIRABILITY OF PROPOSALS TO ESTABLISH AN IEA ENERGY INVESTMENT BANK OR AN IEA INVESTMENT GUARANTEE FACILITY.

5. REPORT BACK TO THE SLT AT AN EARLY DATE.

WITH REGARD TO THE QUESTIONS THAT HAVE BEEN RAISED REGARDING THE DESIRABILITY OF (1) AN IEA-INVESTMENT FACILITY AND (2) AN IEA-SPONSORED INVESTMENT GUARANTEE PROGRAM, WE ARE INCLINED TO BELIEVE THAT THESE MEASURES SHOULD BE HELD IN RESERVE FOR THE TIME BEING.

ACTION BY GOVERNMENTS WILL BE NEEDED TO STIMULATE PRODUCTION OF FUEL AT COSTS ESTIMATED TO BE HIGHER THAN CURRENT PRICE LEVELS. IT IS PREFERRABLE THAT SUCH ACTIONS BE TAKEN WITH RESPECT TO SPECIFIC PROCESSES DESIGNED TO PRODUCE GIVEN AMOUNT OF A GIVEN FUEL. GOVERNMENTS MAY INITIATE THESE PROJECTS OR RESPOND TO PROPOSALS FROM INDUSTRY. IN EITHER CASE, THE SPECIFIC MEASURES CONTEMPLATED UNDER THE "SECOND TIER" OF THE IEA PROGRAM ON ALTERNATIVE SOURCES LIMITED OFFICIAL USE
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WOULD BE ENGAGED. THESE SPECIFIC MEASURES CONSTITUTE A PARTIAL GUARANTEE OF THE EQUITY OF PRIVATE INVESTORS, ALTHOUGH THE INVESTORS WOULD STILL RISK A LOSS OF THEIR CAPITAL IN THE EVENT THE PROCESS FAILED TO PRODUCE FUEL A COST LOW ENOUGH TO YIELD A RETURN.

BASICALLY, OUR VIEW IS THAT CAPITAL WILL BE ATTRACTED TO INNOVATIVE, CAPITAL-INTENSIVE FUEL PRODUCTION PROJECTS AS A FUNCTION OF THE ADEQUACY OF THE SPECIFIC MEASURES ENVISAGED UNDER THE SECOND TIER, AND THAT IT IS THE ADEQUACY OF THESE MEASURES, RATHER THAN THE DEVELOPMENT OF A POOL OF CAPITAL UNDER IEA AUSPICES, THAT WILL DETERMINE THE SUCCESS WITH WHICH ALTERNATIVE HIGH-COST SOURCES ARE DEVELOPED.

AT THIS JUNCTURE, WE ARE NOT PERSUADED THAT SUPPLEMENTAL IEA-SPONSORED INVESTMENT GUARANTEES ARE NECESSARY OR DESIRABLE. IT IS PREFERABLE IN OUR VIEW, IN ORDER TO INSURE THAT PROPSALS FOR PRODUCTION FACILITIES ENJOY A HIGH PROBABILITY OF SUCCESSFUL OPERATION, THAT INVESTORS BEAR A

REASONABLE RISK IN RETURN FOR AN ASSURED MARKET AND A
PROTECTED PRICE FOR THE OUTPUT OF THE FACILITY FOR WHICH
THEY PROVIDE CAPITAL. KISSINGER

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